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BEFORE THE BOARD OF PATENT APPEALS AND INTERFERENCES

Application Number: 09/491,388
Filing Date: January 26, 2000
Appellant(s): CADOUX, ROBERT

Mark G. Knedeisen
For Appellant

EXAMINER'S ANSWER

This is in response to the appeal brief filed 3/10/2006 appealing from the Office action mailed 7/19/2005.

(1) Real Party in Interest

A statement identifying by name the real party in interest is contained in the brief.

(2) Related Appeals and Interferences

The examiner is not aware of any related appeals, interferences, or judicial proceedings which will directly affect or be directly affected by or have a bearing on the Board's decision in the pending appeal.

(3) Status of Claims

The statement of the status of claims contained in the brief is correct.

(4) Status of Amendments After Final

The amendment after final rejection filed on 9/6/2005 has not been entered.

(5) Summary of Claimed Subject Matter

The summary of claimed subject matter contained in the brief is correct.

(6) Grounds of Rejection to be Reviewed on Appeal

The appellant's statement of the grounds of rejection to be reviewed on appeal is correct.

(7) Claims Appendix

The copy of the appealed claims contained in the Appendix to the brief is correct.

(8) Evidence Relied Upon

Macklin, Gordon S. "Going Public and the NASDAQ Market" , The NASDAQ Handbook-1992 edition.

Appellant's admitted prior art -Specification pp. 3-4.

(9) Grounds of Rejection

The following ground(s) of rejection are applicable to the appealed claims:

Claims 27-39 are rejected under 35 U.S.C. 103(a) as being unpatentable over Gordon S. Macklin et al., ("Going Public and the NASDAQ Market", The NASDAQ Handbook -1992 edition) in view of applicant's admitted prior art in the DESCRITPION OF THE BACKGROUND section in application 09/491,388.

Re claim 27: Macklin et al. disclose:

A method for offering shares of stock of a privately-held company in an initial public offering (SEE page 100 "Basic Offering Issues" SECTION and wherein it is well known that the NASDAQ market conducts its business over a computer network), comprising:

offering a first portion of the shares of the stock of the offering stage to investors at a first price; and offering the remainder of the shares of the offering to investors in separate portions over the subsequent one or more offering stages, (see page 103, second paragraph where the above features are completely disclosed; "Many companies have successfully pursued a "seasoning strategy (or a method)," which involves a small IPO (or a first portion) and, sometime afterward, a larger follow-on offering (or remainder of shares over subsequent stage(s)). This strategy can be particularly effective when the company's IPO valuation is under pressure because of difficult market conditions or because the company is not well known and is perceived as higher risk. The company can structure a small IPO at a conservative valuation (or a first portion) and allow the stock to become better known in the investment community. As the stock prices appreciate due to improving market conditions or as the company builds credibility with investors, the company can structure a larger follow-on offering at a higher valuation" (or offering the remainder of shares of the offering to investors in separate portions over subsequent stages). Macklin et al. also discloses: "Centocor attracted strong demand from investors during the IPO and in several subsequent public offerings…") – see p. 101, para. 4.

wherein at least some communications regarding the offering of the shares over the offering stages are made via a computer network. (Inherent feature because business such as the trading of shares is conducted over a computer network at the NASDAQ market and federal security regulations require a company to prepare a offering memorandum before each offering),

Macklin et al. do not directly show the details:

disclosing, prior to the offering, the number of shares to be offered in the offering, that the offering will occur in two or more successive offering stages, the number of shares to be offered in each offering stage, the amount of time between successive offering stages, and pricing information for the shares to be offered in each offering stage. However, Macklin does suggest the essential need for these above features, when he suggested that companies do offer small Initial Public Offering with the pre-intensions of later selling a larger secondary offering (SEE Macklin et al. page 103 "SEASONING STRATEGY"). And in view of Applicants own admitted prior art wherein he teaches on page 3; "Rather, the share price for a secondary offering is contingent upon prior trading, and cannot be established by other pricing models such as the Dutch auction method." Moreover, federal security regulations **require** a

company to prepare a second offering memorandum before the secondary offering.

It would have been obvious to one of ordinary skill in the art at the time the invention was made to disclose the number of shares to be offered, when the shares are to be offered, the amount of time between offering stages and pricing information for the subsequent portions prior to the offering as suggested by Macklin et al. because to do so would have been merely directed towards the "OBVIOUS INTENDED USE" of the Macklin et al. "SEASONING STRATEGY". For example a company who used the "seasoning strategy" would have been inherently capable of submitting the paper work for the initial and subsequent offerings at the same time to federal security regulators and the company would have been **motivated** to be up front about their intensions to use the "seasoning strategy" in an effort to avoid possible share holder investor law suits. In these required papers filed with the Securities and Exchange Commission (see Macklin pp. 110-115) in regard to the initial offering and the subsequent offerings, the company would have been required to state "a pricing procedure" for the first portion sold which would have been some fixed price logically determined by some known means of the current estimated value of the company which is regularly done for an IPO. The terms of the securities to be

sold by a company are disclosed prior to their sale to the SEC. The terms include for example, the number of shares, and pricing information.

Re claim 28: Macklin et al. does not specifically disclose:

price of the shares offered in at least one of the offering stages is to be determined, at least in part, according to a Dutch auction. As admitted by the applicant on pages 3 and 4 of the specification, the Dutch Auction method of pricing an IPO is old and well known in the art. Therefore, it would have been obvious to one having ordinary skill in the art at the time of the applicant's invention to have modified Macklin et al. to include the Dutch Auction method in order to allow investors to set the price of the IPO by placing bids.

Re claim 29: Macklin et al. does not specifically disclose:

the pricing information includes that the price of the shares offered in at least one of the offering stages is to be determined, at least in part, according to a direct public offering. It is old and well known in the art that direct public offerings have been used to determine the price of shares. Therefore, it would have been obvious to one having ordinary

skill at the time of the applicant's invention to modify Macklin to include in the price determination the direct public offering in order to give companies another method of initiating a IPO.

Re claim 30: Macklin et al. disclose:

the pricing information includes that the price of the shares offered in at least one of the offering stages is to be determined, at least in part, according to a traditional IPO pricing. ("The list of specific factors that can affect valuation varies for each company as well over time. Factors such as earnings history, company size, market share, industry…all play a roles in the valuation of a company's stock…. During the IPO process, the investment banks must justify their valuation …")-see p. 105, para. 2.

Re claim 31: Macklin et al. disclose:

the pricing information includes that the price of the shares offered in an offering stage subsequent to the first offering stage is to be calculated based on, at least in part, a trading price for the shares at the close of a prior trading interval. ("Many companies have successfully pursued a "seasoning strategy," which involves a small IPO and , sometime afterward, a larger follow-on offering…The company can structure

a small IPO at a conservative valuation and allow the stock to become better known in the investment community. As the stock prices appreciate due to improving market conditions or as the company builds credibility with investors, the company can structure a larger follow-on offering at a higher valuation.") see p. 103, para. 2.

Re claim 32: Macklin et al. disclose:

the pricing information includes that the price of the shares offered in an offering stage subsequent to the first offering stage will equal a trading price for the shares at the close of a prior trading interval. (see pages 102- 104, in particular p. 103, para. 2. Macklin discloses that the seasoning strategy is used by companies in order to more accurately value the price of subsequent offerings. Once the first offering is made, the market will dictate what price it will pay for subsequent offerings. Therefore, if the initial offering price is what the market dictates for the second offering, then the first offering price will be equal to the second offering price.

Claims 33 and 34 has similar limitations found in claims 32 and 27-30 above and therefore are rejected by the same rationale.

Re claim 35: Macklin et al. disclose:

the number of shares offered in each offering stage is equal. Macklin discloses an example on page 103, para. 2, wherein the second portion is larger than the first portion there is no indication that this is required and "Offering sizes sometimes change during the IPO process in response to company developments and changes in the expected offering price." -see p. 104 , para. 2. Therefore making the number of shares offered in each stage equal is an obvious option. As per MPEP Section 2144.05 (I): In the case where the claimed ranges "overlap or lie inside ranges disclosed by the prior art" a prima facie case of obviousness exists. In re Wertheim, 541 F.2d 257, 191 USPQ 90 (CCPA 1976); In re Woodruff, 919 F.2d 1575, 16 USPQ2d 1934 (Fed.Cir. 1990).

Re claim 36: Macklin et al. disclose:

a trading interval between successive offering stages is one hour in duration. (SEE page 103 wherein the "seasoning strategy" does not define any specific trading interval time between IPO and follow-on therefore one hour is within the range of obvious choices and note the papers on the theory of "under-pricing" cited in this action support this choice). The MPEP

section 2144.05(I) Obviousness of Ranges states: In the case where the claimed ranges "overlap or lie inside ranges disclosed by the prior art" a prima facie case of obviousness exists. In re Wertheim, 541 F.2d 257, 191 USPQ 90 (CCPA 1976); In re Woodruff, 919 F.2d 1575, 16 USPQ2d 1934 (Fed.Cir. 1990).

Re claim 37: Macklin et al. disclose:

a trading interval between successive offering stages is one day in duration (SEE page 103 wherein the "seasoning strategy" does not define any specific trading interval time between IPO and follow-on therefore one day is within the range of obvious choices and note the papers on the theory of "under-pricing" cited in this action support this choice).

The MPEP section 2144.05(I) Obviousness of Ranges states: In the case where the claimed ranges "overlap or lie inside ranges disclosed by the prior art" a prima facie case of obviousness exists. In re Wertheim, 541 F.2d 257, 191 USPQ 90 (CCPA 1976); In re Woodruff, 919 F.2d 1575, 16 USPQ2d 1934 (Fed.Cir. 1990).

Re claim 38: Macklin et al. disclose:

wherein the time amount between each offering stage has the same duration (SEE p. 103, wherein the specific trading

interval is not defined therefore making them all equal is within the realm of obvious possibilities and further what ever trading interval pre-determined would have been documented in the required paper forms to avoid negative actions by stock holders or regulators). The MPEP section 2144.05 (I) (Obviousness of Ranges) states: In the case where the claimed ranges "overlap or lie inside ranges disclosed by the prior art" a prima facie case of obviousness exists. In re Wertheim, 541 F.2d 257, 191 USPQ 90 (CCPA 1976); In re Woodruff, 919 F.2d 1575, 16 USPQ2d 1934 (Fed.Cir. 1990)

Re claim 39:

Macklin et al. do not specifically disclose:

prior to the first offering stage: auctioning shares of the stock to at least one potential subscriber; and awarding an allotment of the shares to the at least one potential subscriber at an auction price dependent upon a bid price of the at least one potential subscriber during the auctioning for a quantity of the shares. As admitted by the applicant on pages 3 and 4 of the specification, the Dutch Auction method of pricing an IPO is old and well known in the art. Therefore, it would have been obvious to one having ordinary skill in the art at the time of the applicant's invention to have modified Macklin et al. to

include the auctioning shares of stock in order to allow investors to set the price of the IPO by placing bids.

(10) Response to Argument

The rejection of claims 27-39 under 35 U.S.C. 101 is withdrawn in view of the court ruling Ex parte Lundgren, 76 USPQ2d 1385 (BdPatApp&Int 2005).

The applicant's estoppel argument has been considered but is not persuasive. The prior use of Macklin was applied against claims that are no longer presented. Furthermore, Macklin qualifies as prior art under 35 U.S.C 102.

In response to appellant's argument that the examiner's conclusion of obviousness is based upon improper hindsight reasoning, it must be recognized that any judgment on obviousness is in a sense necessarily a reconstruction based upon hindsight reasoning. But so long as it takes into account only knowledge which was within the level of ordinary skill at the time the claimed invention was made, and does not include knowledge gleaned only from the applicant's disclosure, such a reconstruction is proper. See *In re McLaughlin*, 443 F.2d 1392, 170 USPQ 209 (CCPA 1971). In the rejection of claim 27, the Examiner refers to Macklin pp. 110-115 wherein Macklin discloses the IPO process and "The SEC requires that the company use the

prospectus to disclose all information about the company and its businesses that could be relevant to an investor…The cover of the preliminary prospectus contains basic offering data, including the proposed size of the IPO…filing range… The prospectus also must contain the audited historical financial results of the company and the effects of the planned offering on its financial position."-see p. 111, pars. 2 & 3. The motivation used by the examiner in claim 27:

> It would have been obvious to one having ordinary skill in the art at the time the invention was made to disclose the number of shares offered, when the shares are to be offered, the amount of time between offering stages and pricing information for subsequent portions prior to the offering as suggested by Macklin et al. because to do so would have been the "OBVIOUS intended use" of the Macklin et al. "seasoning strategy."

The motivation is derived from that which is taught by the Macklin reference i.e., a seasoning strategy defined by Macklin as a small IPO followed by a larger follow-on offering p. 103, and the process of disclosure to the SEC- Macklin p. 111. Therefore, it would have been obvious based on Macklin that the information concerning the IPO, i.e., size, amount, time, would need to be disclosed to the SEC prior to the offering and in

this reference the seasoning strategy is one initial offering followed by another offering.

Regarding the appellant's argument that if a company were to conduct a later seasoned offering, the seasoned offering is not legally disclosed, committed to or scheduled at the time of the IPO, the appellant's attention is once again directed to pp. 111, para. 1 & 2 of Macklin. The Macklin reference teaches the claimed invention and legally disclosing information per SEC regulations. "Ideally, the document should stimulate investor interest in the company and also protect the company from litigation by disclosing all pertinent facts and risks. The prospectus serves as the definitive source of information about the company for potential investors…The SEC requires that the company use the prospectus to disclose all information about the company and its businesses that could be relevant to an investor. The cover of the preliminary prospectus contains the basic offering data, including the proposed size of the IPO as well as the filing range, which gives investors their first indication on valuation." The appellant's attention is also directed to pp. 112-115 wherein Macklin teaches the registration process "the company files a registration statement which includes both the prospectus and several other IPO documents with the SEC for review." It is clear that the SEC must have

all information regarding the offering of securities before the stock is sold via an exchange.

In response to appellant's argument that the references fail to show certain features of appellant's invention, it is noted that the features upon which appellant's(i.e., reduced costs, risks and delays inherent in seasoned offerings) are not recited in the rejected claim(s). Although the claims are interpreted in light of the specification, limitations from the specification are not read into the claims. See *In re Van Geuns*, 988 F.2d 1181, 26 USPQ2d 1057 (Fed. Cir. 1993). Further, since the references disclose appellant's claimed invention, the features of reduced risks, and delays are inherent.

In response to the appellant's argument that the references fail to show certain features of the appellant's invention, it is noted that the features upon which appellant's (i.e., a solution to the under-pricing problem for the IPO) are not recited in the rejected claim(s). Although the claims are interpreted in light of the specification, limitations from the specification are not read into the claims. See *In re Van Geuns*, 988 F.2d 1181, 26 USPQ2d 1057 (Fed. Cir. 1993). Further, Macklin recognizes the under-pricing problem with higher valuation. The appellant's attention is directed to pp.

104-105, wherein Macklin teaches "For the company and selling shareholders, the cost of capital is lower with a higher IPO valuation because fewer shares, and hence a smaller percentage of equity, can be sold for a given amount of proceeds. However, pushing a company's valuation to the limit may result in a trade-off between the cost of capital and the aftermarket price performance of the stock. An aggressive IPO valuation will cause investors to put more pressure on the company's financial results in the aftermarket. Furthermore, a higher valuation, given the higher starting price of the stock is likely to reduce the stock price's rate of appreciation. As discussed earlier, a strong aftermarket performance makes a follow-on offering more attractive and creates credibility with investors. The company should seek the highest sustainable valuation rather than the highest attainable valuation…"

In response to the appellant's argument concerning the advantages of the appellant's invention over the Macklin seasoning strategy concerning (1) the capability of providing flexible pricing within the stages of the IPO, (2) the opportunity for hedging, arbitrage, and other pricing strategy opportunities for professional and retail investors that are not available in conventional seasoning strategies, and

(3) risk containment for both the issuer and the investors that the present invention provides with its predisclosed offering process where the offering particulars are fully disclosed before the first share is sold, the appellant's attention is once again directed to pp. 104-105 of Macklin wherein Macklin discloses IPO valuation and that a strong aftermarket performance makes a follow-on offering more attractive and creates credibility with investors. Further, Macklin teaches "Many companies have successfully pursued a 'seasoning strategy,' which involves a small IPO and, sometime afterward a larger follow-on offering. This strategy can be particularly effective when the company's IPO valuation is under pressure because of difficult market conditions or because the company is not well known and is perceived as higher risk…As the stock prices appreciate due to improving market conditions or as the company builds credibility with investors, the company can structure a larger follow-on offering at a higher valuation."- see p. 103, para. 2. Based on the teachings of Macklin, the appellant's invention is disclosed and the advantages of flexible pricing, hedging or pricing strategy opportunities, and risk containment are shown by Macklin.

Regarding the appellant's argument that there is no way for the company to know what material events will occur between

the IPO and subsequent offerings is addressed by Macklin on pp. 103, "Many companies have successfully pursued a 'seasoning strategy', which involves a small IPO and, sometime afterward, a larger follow-on offering. This strategy can be particularly effective when the company's IPO valuation is under pressure because of difficult market conditions or because the company is not well known and is perceived as a higher risk. The company can structure a small IPO at a conservative valuation and allow the stock to become better known in the investment community. As the stock prices appreciated due to improving market conditions or as the company builds credibility with investors, the company can structure a larger follow-on offerings at a higher valuation." The basis for a company's seasoning strategy is to gradually introduce a stock to the market because of the fact the stock market is inherently unpredictable.

Regarding the appellant's argument that it is untrue that a company using Macklin's seasoning strategy would be "inherently capable" and "motivated" to submit paperwork for the follow-on offering at the time of the first offering (i.e., the IPO). The Examiner's obviousness rejection on p. 6 of the Office Action states that a company would be motivated to fully disclose to it's potential investors that a small IPO will be followed by a larger follow-on offering in order to avoid investor lawsuits.

As stated in the Office Action, p. 6, the SEC requires full disclosure for this very reason and is evidenced by Macklin pp. 111, paragraphs 1 and 3, "Ideally, the document should stimulate investor interest in the company and also protect the company from litigation by disclosing all pertinent facts and risks…The contention that a company's prospectus either omitted pertinent information or included misleading information could sere as the main vehicle for a class-action, securities-fraud lawsuit." The appellant's attention is also directed to pp. 112-115 wherein Macklin teaches the registration process "the company files a registration statement which includes both the prospectus and several other IPO documents with the SEC for review." It is clear that the SEC must have all information regarding the offering of securities before the stock is sold via an exchange.

Regarding the appellant's argument pertaining to the issuance of U.S. Patent No. 6,629,082 (Hambrecht), it is noted that the Hambrecht patent has not been applied in the rejection (subject of this Appeal) and accordingly, any arguments directed are irrelevant.

(11) Related Proceeding(s) Appendix

No decision rendered by a court or the Board is identified by the examiner in the Related Appeals and Interferences section of this examiner's answer.

For the above reasons, it is believed that the rejections should be sustained.

Respectfully submitted,

HYUNG SOUGH
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Conferees:

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